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M I F A

Massachusetts Industrial Finance Agency



MIFA's Objectives

Massachusetts has always been distinguished by its people. Their enterprise and hard work made the state a leader in foreign trade and later the birthplace of America's industrial revolution. Today the skills of our people are still our greatest asset. But investment capital is required to put these skills to work in our growing companies and emerging cities.

The Massachusetts Industrial Finance Agency (MIFA) increases private investment to create more jobs and a stronger economy to meet the challenges we face in the future. MIFA's incentive programs are helping to enlarge the capacity and productivity of our industrial companies, and to bring our downtowns back to life. The employers and communities our programs have assisted are the subjects of our second annual report.

Lowell, for instance, offers a startling example of the potential for Massachusetts cities to regain their strength as commercial and industrial centers. Founded as the nation's first planned manufacturing city, Lowell is today the site of the first urban national park and the focus of an extraordinary industrial renaissance. Shown on the *cover* is the former Lowell Police Station, now being restored as office and retail space with help from MIFA's Commercial Area Revitalization District financing program. Developers are James Cooney and the Lowell Five Cent Savings Bank; Baybank Middlesex is the lender.

The First Two Years

	Projects	Bonds Issued	Jobs
1980	310	\$460,693,317	16,109
1979	147	\$209,182,810	8,840
Total	457	\$669,876,127	24,949

	Projects	Bonds Issued	Total Cost
Manufacturing	320	\$379,904,297	\$455,565,785
Warehouse and Distribution	79	\$100,337,830	\$213,116,731
R&D/ Manufacturing	15	\$ 27,887,000	\$ 40,023,500
Pollution Control	5	\$ 98,125,000	\$ 98,686,000
Commercial	38	\$ 63,622,000	\$ 83,111,675
Insurance Commitments	41	\$ 28,643,000	\$ 43,263,500
Foreign and Out of State Firms	48	\$110,157,810	\$128,392,185



John McP. Collins
Chairman



Robert E. Patterson
Executive Director

GOVERNMENT DOCUMENTS
COLLECTION
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Three historic buildings at a key corner in downtown Lowell are being restored with a low cost mortgage and other local support. Rehabilitations assisted through the CARD program are making an important contribution to the Lowell Plan.

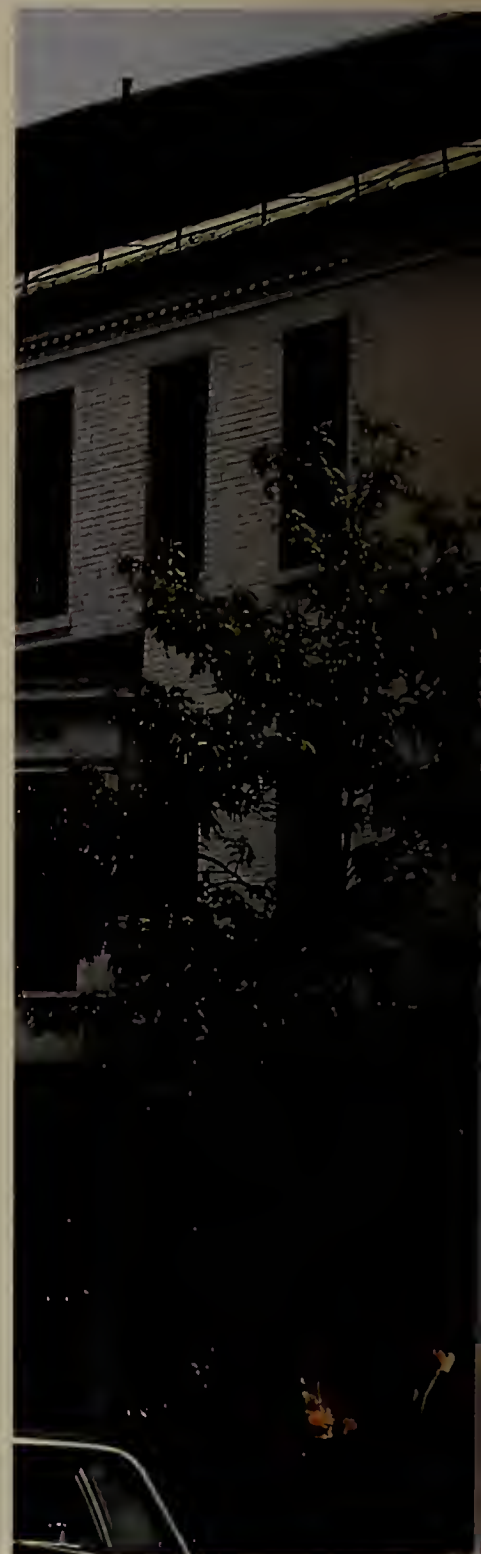
MIFA can lower the cost of debt service on new or rehabilitated commercial properties located within the boundaries of a CARD area. The agency can also provide mortgage insurance as further security to lenders participating in the rehabilitation of important buildings in CARD areas. In addition, certain tax credits and deductions became available to commercial employers under the state's Urban Job Incentive program when MIFA and the CARD program were enacted.

These incentives were joined in 1980 by the expanded mandate of the state's Government Land Bank to assist urban projects. Working together, the Land Bank and MIFA initially approved financing for the rehabilitation of two major buildings in CARD areas last year. These rehabilitations will proceed with the Land Bank's subordinated financing and MIFA's tax-exempt first mortgage financing through local banks.

Federal Incentives

These Massachusetts incentives were designed to complement the federal programs stimulating private urban investment. Federal investment tax credits and accelerated depreciation benefits are available for rehabilitating countless buildings in Massachusetts' older developed areas.

Another major federal program provides financial assistance through Urban Development Action Grants ("UDAGs") from the U.S. Department of Housing and Urban Development. Massachusetts projects have received nine percent of all UDAG money awarded nationally since this program started in 1978. These grants provide direct aid and also double the size of a project which can use MIFA assistance. To date these grants in the Commonwealth have totalled over \$140 million for 52 privately sponsored urban developments, many of which also are using MIFA financing.





Wyman Gordon, far left, is expanding its machining capacity and creating new job opportunities at its Worcester facility, one of the company's three major industrial plants in Massachusetts.

In Lynn, left, once a center of the nation's shoe industry, Barry Manufacturing is modernizing its building and adding new equipment. The company received a \$400,000 loan to expand its growing line of infants' shoes, and will add over 40 new jobs.

Domenico employs 230 people in the heart of Lynn's urban renewal area. Financing to build this growing apparel manufacturer's new plant was provided by MIFA insurance, Essexbank, First East

and Lynn 5 Cent Savings Banks, plus the Lynn Municipal Development Corporation.



Lavigne Press, below, borrowed \$600,000 to renovate its 50-year-old building in Worcester and add equipment to expand its offset printing business.

Springfield's educational TV station, WGBY, below center, saved interest costs by choosing Springfield's CARD for its new facility. The station rehabilitated an old building with a \$1.2 million low cost loan from the Springfield Mortgage Pool.



With \$325,000 in tax-exempt financing, Temp-Pro, a small but growing manufacturer of electrical components, was able to build its new 10,000 sq. ft. plant in

the Northampton Industrial Park. The loan was provided by The First National Bank of Amherst.

Housing in the Downtowns

In 1980 Governor King and the Legislature changed MIFA's statute to permit tax-free financing to be used for market-rate housing for the first time. This legislation recognized that the reuse of older, underutilized buildings for housing is essential for both economic development and urban revitalization in Massachusetts. Economic growth requires affordable housing. A revitalized downtown needs more people living and shopping in the heart of the community.

In just five months since this new legislation became effective, MIFA has issued bonds totalling \$12.4 million for four CARD projects to include residential and commercial uses. These rehabilitations will produce 380 units of additional housing while bringing more life to the centers of three communities.

With the prohibitive cost of conventional mortgages and the potential slowing of federal subsidies for low-income housing, MIFA's new program could become critical to producing more decent housing while strengthening the economic and physical vitality of our downtowns. However, Congress recently enacted restrictions on revenue bonds for single family housing which will also affect MIFA's mixed commercial and residential rehabilitations. In the future direct rental subsidies must be obtained to meet the new federal requirement that 15% or 20% of the residential units be reserved for low or moderate income residents.

To date under the CARD program MIFA and local authorities have completed 38 financings totalling over \$63 million for new and rehabilitated commercial properties in 23 communities. But the potential private investment which could flow from this program is just beginning. MIFA has given initial approval to more than \$42 million for another 20 CARD projects in the early stages of development, and we have received an increasing volume of inquiries from developers and local officials across the state.

Massachusetts cannot discard its older city and town centers. We live in the third most densely populated state in the nation, a state which depends on its special "quality of life." The relative compactness of our past development could well be an important economic advantage in the future. As the costs of energy, transportation, suburban land development, and conventional financing increase, more and more investors are looking to the opportunities presented by our urban centers and the CARD program.

Springfield Foundry, established in 1854, must now add pollution control equipment. The foundry, which employs 115 people, will be the first to benefit from MIFA's publicly issued and federally guaranteed pollution control bonds.

Smaller Companies

Of all states, Massachusetts has a special reason to assist smaller companies: many of our largest employers were small companies only a short time ago. These rapidly growing firms buy materials and services from countless small businesses in Massachusetts, who in turn have added thousands of new employees in recent years. And within these companies are the entrepreneurs and innovators who are likely to create more new products and companies in the future.

As a state whose greatest assets are its people and their skills, Massachusetts' economic future depends in large part on maintaining this process of continual innovation. To help finance the long-term fixed assets of smaller companies, MIFA has focused much of its efforts on these firms and the banking, real estate, accounting, and legal professionals who serve them.

Lower Interest Rates

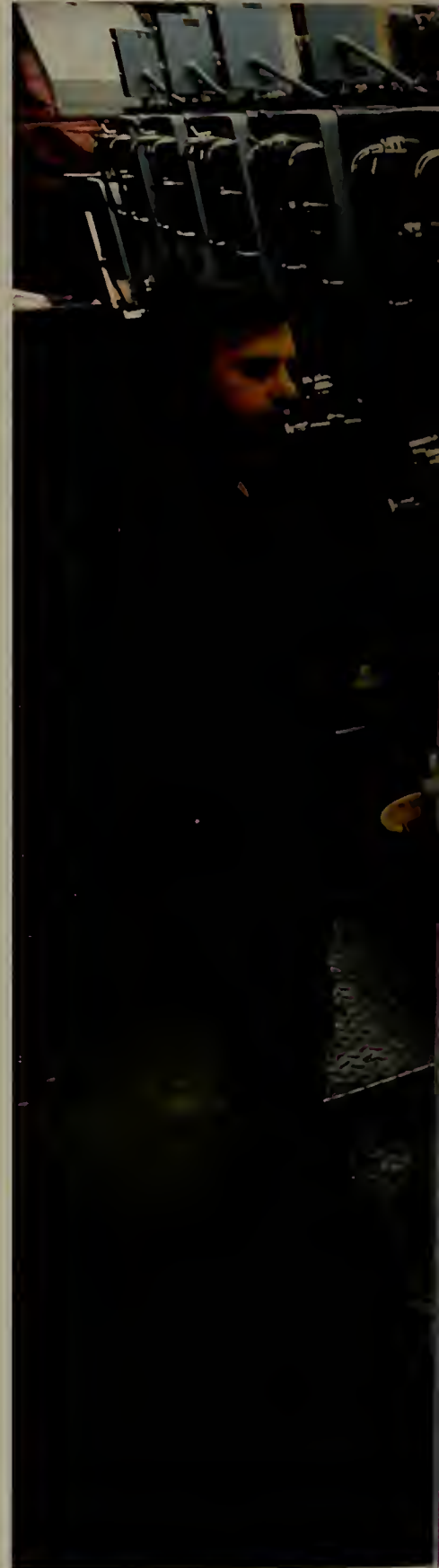
Although tax-exempt loans for industrial companies have been possible in Massachusetts since 1968, very few smaller companies ventured into the world of public bond finance. Since the creation of MIFA there has been a marked increase in this type of financing for plant and equipment.

Often these smaller companies are adding substantial amounts of fixed assets relative to their current operations. Without access to the national credit markets, these companies are dependent on local lenders for their long-term debt. Fortunately, Massachusetts' large and diverse banking system has used MIFA to lower the debt service on these smaller companies while enabling them to grow.

Three and one-half times as much tax-exempt financing has been issued by MIFA and local industrial development financing authorities in the past two years in Massachusetts than in the entire previous decade. And of the industrial companies assisted, two out of three had annual sales of less than \$20 million, and *one-half had sales of less than \$5 million.*

Mortgage Insurance

MIFA's mortgage insurance program has played an increasingly important role in financing small business expansions. With mortgage insurance the agency assumes a major part of the lender's risk in the event of a default by the borrower. MIFA insurance offers the smaller company a chance to acquire additional collateral at a very modest cost. The lender can increase the amount of its loan without increasing its risk, and the company can finance more of its productive assets at the favorable tax-exempt interest rate.



Daniels Printing Company employs 165 people on three shifts in Everett. To finance a new six-color press, MIFA sold a \$750,000 bond to the company's commercial bank. The low interest rate will help Daniels carry this increased debt,

and the new press will increase productivity and add 19 new employees.

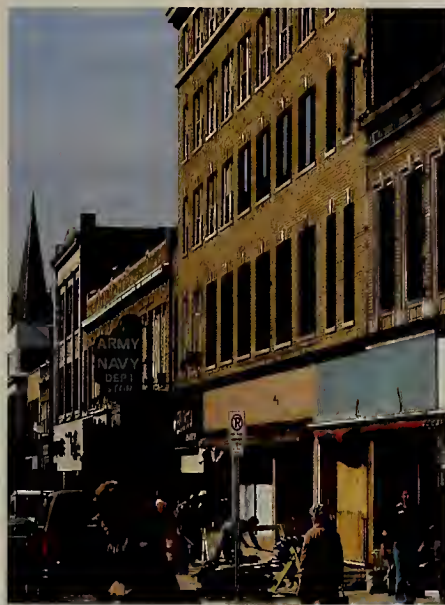


In Boston, construction is underway on a 100,000 sq. ft. new plant for P & L Sportswear. The company is expanding to produce women's sportswear which had been manufactured in other parts of the country. As many as 700 people

will work in this modern manufacturing facility, financed by a tax-exempt mortgage from the First National Bank of Boston and MIFA's insurance program.



The CARD program is working well in Fitchburg, where eleven historic buildings on Main Street are being restored with a tax-exempt mortgage from First Safety Fund National Bank.



The Springfield Mortgage Pool is using CARD financing to revive downtown Springfield with projects such as this headquarters for the Homebuilders Association, below, a fully renovated turn of the century building in the Springfield CARD.

New England Book Components, second below, expects to more than double its employment since moving to the South Shore Industrial Park, Hingham. The new building was financed by MIFA insurance and Lincoln Trust Company.

Due to the strong support of Governor King and the Legislature, MIFA's Insurance Reserve Fund was increased in 1980 from \$3 to \$5 million. This increased fund will enable the insurance program to help more employers add new jobs in Massachusetts. Since its inception the mortgage insurance program has committed insurance for over \$28 million of loans. These loans will help 40 companies add over \$40 million of new and improved plant and equipment and over 2,200 jobs in this state. With continued support MIFA's mortgage insurance can be a significant force for job creation and economic development in the future.

Second Mortgage Loans

By law MIFA's insured loans are limited to 90% of a project's value. During 1980 MIFA initiated a new program with the Massachusetts Business Development Corporation ("MBDC") to provide 100% tax-exempt financing for smaller companies.

Loan applications for MIFA insurance can now also be submitted by MIFA to MBDC for a tax-exempt second mortgage loan. The combination of a first mortgage insured by MIFA and MBDC's second mortgage can provide 100% financing at lower tax-exempt interest rates. Two companies already have been approved for financing through this new program, and MIFA and MBDC expect to work together on many more such financings in the future.

Pollution Control

As the Environmental Protection Agency continues to issue its industry enforcement standards, many small businesses will be faced with the need to borrow substantial funds for pollution control equipment. By definition these expenditures seldom increase productivity or profits, and therefore are difficult to finance.

MIFA, in cooperation with the U.S. Small Business Administration, offers 100% guaranteed tax-exempt bonds for pollution control expenditures by smaller companies. Projects can be pooled together and sold as one bond offering in the public markets. Through this new program smaller companies can obtain both the lowest interest rate possible, plus a longer repayment period than most private lenders will permit.

During 1980 MIFA obtained the first SBA commitment for this program in Massachusetts. Springfield Foundry, Inc. is now proceeding with interim financing, and the long-term bonds will be sold by Salomon Brothers this spring. We expect this very advantageous type of financing will increase dramatically in the future.



Swiss owned Frequency and Time Systems is one of eight foreign companies using MIFA to build new plants in Massachusetts. This high technology manufacturer of time-keeping systems is completing a new 30,000 sq.ft. plant in Beverly.



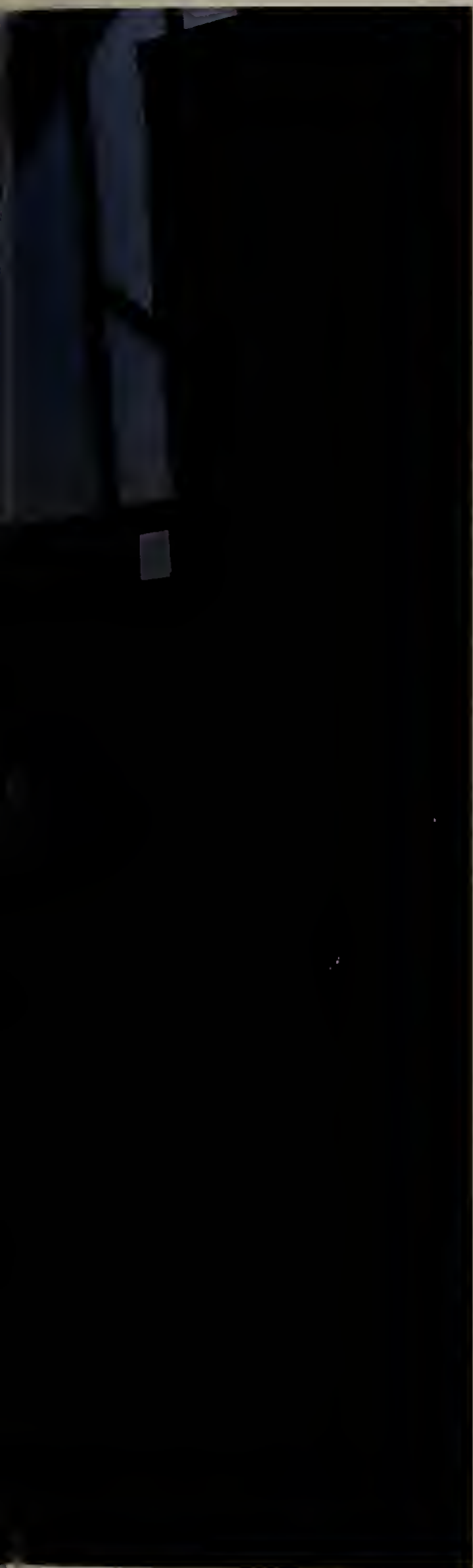
Cordell Engineering credits MIFA with making it possible to start the first building in Peabody's Centennial Industrial Park. This manufacturer of film processing equip-

ment will add new product lines and up to 60 employees after consolidating operations into this new, more efficient plant.



Gloucester's fishing fleet received additional cold storage in Atlantic Reefer Terminals' new facility financed by an \$800,000 bond bought by Cape Ann Bank and Trust and Shawmut Bank. The Company expects to double its employment.

The CARD program in Brockton encouraged the Brockton Enterprise, far right, to create an important anchor at one end of Main Street by combining the restoration of two older structures with construction of a new office building.



Looking Forward

In a little over two years MIFA has helped companies who are investing almost \$900,000,000 in new and improved real estate and equipment in this state. It is difficult to know how many of these investments would have been stopped, delayed or cut back by the recent interest rate roller coaster if MIFA had not been created.

We do know that the turbulence in the nation's credit markets has made commercial and industrial lending impossible for most thrift institutions, who hold approximately one-half of the banking assets in Massachusetts. And long-term, fixed rate loans to smaller companies appear to have succumbed to rising inflation and interest rates.

MIFA has been fortunate to attract the participation of eighty-five institutional lenders in its incentive programs. The continued support of these banks and insurance companies is essential to our progress. Therefore we have tried to maintain their participation by adjusting MIFA's programs to meet changing market conditions.

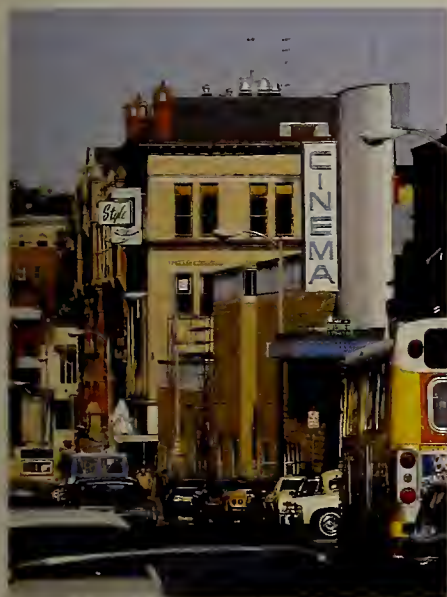
For instance, we have assisted in the creation of a new financial instrument: the long-term, tax-exempt, floating rate loan to finance plant and equipment. We have issued, and in some cases insured, these new loans. Adjustable tax-exempt interest rates are necessary if banks are to continue making low interest funds available to companies when their own cost of funds changes so rapidly.



One of Cape Ann's major employers, Gloucester Engineering, added equipment last year to increase its capacity and productivity. Founded in 1961, this company is now owned by a West German firm and employs over 600 people.



Seven Fall River banks used the CARD program to fill a long-standing gap on Main Street with a new retail and office mall, part of a UDAG-assisted revitalization program which includes a parking garage and two residential towers.



A period of high interest rates may be necessary to control inflation. But if we are to improve our productivity and create well paying jobs, we cannot afford to stop our innovative companies from upgrading their plant and equipment. We believe that we have used the federal tax exemption in a responsible manner to continue this essential investment in the face of unprecedented and unstable interest rates.

For the future, however, there are serious concerns about the volume of tax-exempt loans which the local banking system can absorb. Also, opinions differ over whether Congress should permit tax-exempt bonds to benefit private employers.

The U.S. Treasury continues its long history of opposition to tax-exempt bonds, including industrial revenue bonds. The unrestricted use of tax-exempt bonds in many other states has led to abuses which no doubt will be widely publicized when Congress takes up the question this year. The discussion should not overlook the fact that most of the abuses are commercial – as opposed to industrial – projects.

Massachusetts is a national leader in targeting tax-exempt financing for commercial enterprises. Industrial businesses bring money and employment into the Commonwealth. For this reason MIFA assists industrial plants wherever they choose to locate within the state.

Most commercial enterprises, however, derive their support from the personal income already circulating in a market area. Therefore, to be eligible for MIFA assistance, commercial properties must locate within specific downtown areas to pursue a second public policy goal: urban revitalization.

Our state's economy is dependent on the success of our manufacturers. To succeed they must be able to borrow on reasonable terms the funds they need to increase their capacity and productivity. For smaller firms this capital is only available from their local banks. An excessive and irresponsible use of tax-exempt financing is unwise because it could exclude these companies from this type of financing.

Restoring the Hearn's Furniture building in Westfield's downtown will convert vacant upper floors into 42 apartments for the elderly. MIFA's new commercial/residential rehabilitation program

and a mortgage pool of local banks made this project possible without federal rent subsidies.



The future of tax-exempt bonds in many ways depends on Congress. Hopefully Congress will enact amendments to prevent abuses, but only amendments which encourage productive investment consistent with responsible public purposes.

For Massachusetts, the demand for lower interest rates offered by MIFA's programs will remain strong until the federal government reduces inflationary expectations and interest rates. We must also be prepared to meet the increasing need for mortgage insurance to aid the expansion of smaller companies and the restoration of our commercial centers. All of our region's economic difficulties are not over, and we must continue to aggressively pursue the goals of more jobs and a better economic future for Massachusetts.

John McP. Collins

John McP. Collins
Chairman

Robert E. Patterson

Robert E. Patterson
Executive Director

January 8, 1981

The Programs

The Massachusetts Industrial Finance Agency was established to administer a variety of economic development financing programs to assist expanding businesses throughout Massachusetts. The goal of MIFA's incentives is to create more jobs and higher incomes by stimulating greater levels of investment by our private employers. A private lender is involved in all financing through MIFA's incentive programs, and MIFA does not regulate the terms of the financings. The incentive programs include:

Tax-Exempt Industrial Loans

To entice employers to establish or expand their companies in Massachusetts, MIFA uses its exemption from federal income taxes to lower the interest rate on loans for manufacturing, research and development, or warehouse and distribution firms. The financing must be used for the construction, acquisition or improvement of plant and equipment located in Massachusetts which will create or retain employment within the state.

These loans are created as "industrial revenue bonds," and in many respects are very similar to conventional loans to finance real estate and equipment. Interest on the loan is exempt from federal income tax, and therefore the lender can grant the loan below current conventional interest rates. The lender evaluates the borrower's credit in the same way as it would for a conventional loan. The credit of the state, MIFA, or any local government is not pledged to repay the loan unless MIFA's insurance is purchased.

Mortgage Loan Insurance

Some firms with good growth potential, particularly younger or smaller firms, have difficulty obtaining long-term loans to finance plant and equipment purchases. With MIFA insurance, a company can borrow more of a project's cost at tax-exempt rates. This reduces the firm's debt service costs and conserves its cash for working capital while also expanding its investment in productive assets.

For lenders, MIFA's insurance program can provide additional security by reducing their net exposure while increasing loan amounts to their customers. The benefits to both the present lender and borrower more than offset MIFA's premium for the insurance. MIFA encourages borrowers who may need insurance to apply as early as possible to prevent any delay in the financing. Unlike the Small Business Administration, MIFA will insure tax-exempt loans, has no requirements that the borrower be turned down first by private lenders, and does not restrict eligible borrowers by their size. Certain important commercial buildings in CARD areas to be rehabilitated are also eligible for mortgage insurance.

Pollution Control Financing

Financing for pollution control equipment can put a financial strain on a company. This is because the required machinery increases the company's debt service costs without increasing its productivity and revenues. To ease the burden, tax-exempt financing is available for pollution control facilities, which can range from specialized equipment for an individual company to large solid waste resource recovery plants or hazardous waste facilities.

For smaller companies, MIFA can obtain better financing terms than the nation's largest corporations receive for their pollution control bonds. MIFA will combine a number of smaller companies with pollution control needs into one larger MIFA bond offering with a Small Business Administration 100% guaranty.

Because the bonds carry the credit of the federal government and are exempt from taxation, they offer extremely favorable rates and repayment terms. Massachusetts companies with less than 1,000 employees are eligible for this program which helps to take the financial sting out of pollution control.

Assistance for Commercial Area Revitalization Districts

In addition to its financial incentives for industrial growth, MIFA offers tax-exempt financing and mortgage loan insurance to assist commercial revitalization projects.

Commercial buildings such as offices, hotels, retail stores and parking garages are eligible for tax-exempt mortgage loans if located within a Commercial Area Revitalization District (CARD). These districts are designated in a revitalization plan adopted by a community's city council or board of selectmen and then approved by the state's Secretary of Communities and Development.

Tax-exempt mortgages for projects contributing to the revitalization of a downtown commercial center can be a powerful tool to help local banking, business and community leaders to revive their downtowns by lowering the debt service costs for new or rehabilitated downtown buildings relative to similar buildings in outlying areas.

Many of the state's cities and towns have established CARD plans, and some have obtained federal Urban Development Action Grants to assist projects in those districts. The rehabilitation of important buildings in CARD areas is eligible for MIFA's mortgage insurance. Improved properties within CARD districts may also qualify for certain tax credits and deductions under the state's Urban Job Incentive Program.

Financing for Housing

Successful urban revitalization requires people living as well as working and shopping in our commercial centers. Buildings within CARD areas to be improved with tax-exempt mortgages through MIFA may contain rental housing if the building also contains some commercial space, usually on the ground floor. The financing must be used substantially for acquiring and rehabilitating existing buildings, not new construction.

The governing body of the municipality and the MIFA directors must vote after public hearings that the building is blighted and in need of assistance to be restored. A new federal law requires that 15% or 20% (depending upon location) of the apartments in the building be reserved for low or moderate income persons.

Who Can Qualify

MIFA's goal is to creatively use the provisions of federal and state law permitting tax-exempt financing to stimulate private investment. Certain criteria must be met to qualify for MIFA programs:

1. All projects must create or retain employment in Massachusetts.
2. Projects to be used by manufacturing, research and development, or warehousing and distribution enterprises may be located anywhere in Massachusetts. All other projects must be located in a community's commercial center designated a "Commercial Area Revitalization District."
3. No commitment or transaction should be undertaken before MIFA or a local industrial development financing authority gives initial approval for the project. If a local authority will issue the bond, the project must also receive approval by the governing body of the municipality (city council and mayor or board of selectmen).
4. The proceeds of the tax-exempt loan must be used strictly to acquire land, improve land, or purchase depreciable assets such as equipment. Working capital and refinancings are not eligible. Certain costs and fees pertaining to the transaction may be included in the bond.
5. If the bond will exceed \$1 million, the owner and any user of more than 10% of the project must not make capital expenditures exceeding \$10 million in the same community as the project financed with a tax-exempt loan. This capital expenditures test covers the three years *prior to* and three years *after* the date that the loan is completed. If the project is partly financed by a federal Urban Development Action Grant, the capital expenditures limit rises to \$20 million, though the tax-exempt loan still cannot exceed \$10 million. In addition, certain types of facilities (parking garages, pollution control equipment, convention or trade developments) are exempt from any capital expenditures limitation.

A loan to be *insured* by MIFA must:

- Be secured by a first mortgage lien on the new or improved plant or equipment to be financed.
- Create or retain employment in Massachusetts that is substantially full-time, non-seasonal, paying one and one-half times the minimum wage, and offering adequate fringe benefits, such as health insurance.
- Not exceed 90% of the value of real estate, or 80% of the cost of equipment securing the loan. The insured portion of the loan will vary in each case with the amount requested and the employment to be created, and generally ranges from 10% to 40% of the loan (but not more than \$500,000).

Steps to Follow

Once eligibility is determined, the tax-exempt approval process should move rapidly through the following critical steps. Loan closings completed from steps 1-7 are regularly achieved in 60 days.

Step 1

Contact MIFA to determine eligibility of the project, referral to local industrial development financing authority if one exists in the project location, ideas on possible funding sources, and other potentially applicable programs.

Step 2

Fill out a simple application form available from MIFA called a "Project Information Statement." Lawyers to serve as "bond counsel" should be selected at this stage by the borrower (with the proposed lender's approval, if possible).

Step 3

Have MIFA, or the local authority and the municipality's governing body, take the first vote to approve the project before commitments for the project, including a purchase and sale agreement for property or a purchase order for equipment, are made.

Step 4

Construction or purchase of the building or equipment may commence.

Step 5

Negotiate the final financing terms with the lender as the lawyers complete the loan papers, research the zoning, title, and complete other legal aspects of the financing.

Step 6

Submit the final loan papers for approval by the local authority if it is to issue the bond, and then by MIFA's board of directors, or by MIFA only if MIFA is to issue the bond.

Step 7

Upon MIFA's approval, MIFA will supply a Certificate of Convenience and Necessity and immediately thereafter the loan can be completed.

Insured Loans

If insurance is requested MIFA will need up to three weeks for an appraisal to be done, and accordingly MIFA should be called to commence the insurance processing as close as possible to Step 2.

Projects to Include Housing

If the building may include any residential units, Steps 1 to 7 remain substantially the same, except that MIFA (not a local authority) must issue the bond, and one additional step is required:

Step 2A

Following publication of *notice* 10 days prior to the hearing date, the local governing body must hold a public hearing and must *vote* to adopt certain findings regarding the proposed project. (Forms for the required notice and findings are available from MIFA.)

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